

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**ENERGY DIVISION**

**AGENDA ID 14102  
RESOLUTION G-3508  
July 23, 2015**

**R E S O L U T I O N**

Resolution G-3508. San Diego Gas and Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) request approval for establishment of the Deductible Tax Repairs Benefits Memorandum Accounts (DTRBMA).

**PROPOSED OUTCOME:**

- Approves SDG&E's and SoCalGas' request to establish the DTRBMA.

**SAFETY CONSIDERATIONS:**

- There is no impact on safety.

**ESTIMATED COST:**

- There may be some cost savings to ratepayers. The amount of the savings will be determined in the SDG&E and SoCalGas General Rate Case proceeding Applications 14-11-003 and 14-11-004.

By SDG&E Advice Letter 2710-E/2366-G filed March 2, 2015 and SoCalGas Advice Letter 4771 filed March 2, 2015.

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**SUMMARY**

**SDG&E's and SoCalGas' requests to include the Deductible Tax Repairs Benefits Memorandum Accounts as of January 15, 2015 in their electric and gas tariffs are approved. Granting these requests would provide the Commission an opportunity to address how any 2015 benefits from the change in accounting for the repairs deduction should be applied.**

**BACKGROUND**

In the SDG&E and SoCalGas Test Year 2016 General Rate Case (GRC), Applications (A.) 14-11-003 and 14-11-004, respectively, The Utility Reform Network (TURN) filed a motion on December 18, 2015 requesting that the Commission direct SDG&E and SoCalGas to each establish a new memorandum account to track certain income tax costs.

In its motion, TURN contended that one of the factors that affect the utilities' income tax expenses is the method of accounting for the repairs deduction. TURN also argued that the utilities had changed their accounting method related to the repairs deduction since the utilities' 2012 GRC resulting in substantial tax benefits associated with using the new accounting method. In order to potentially capture the benefits for ratepayers, TURN requested the Commission require the utilities to each establish a memo account to record the difference between the revenue requirements associated with the two different accounting methods.

On January 15, 2015, by Administrative Law Judge (ALJ) Ruling, the Commission approved TURN's motion for SDG&E and SoCalGas to establish memorandum accounts to track income tax differences associated with changes in repair deductions as of January 15, 2015. The Ruling required the utilities to submit a Tier 3 advice letter to establish the memo accounts.

On March 2, 2015, SoCalGas and SDG&E submitted AL 4771 and AL 2710-E/2366-G, respectively, to request approval of their Deductible Tax Repairs Benefits Memorandum Accounts.

**NOTICE**

Notice of SDG&E AL 2710-E/2366-G and SoCalGas AL 4771 was made by publication in the Commission's Daily Calendar. SDG&E and SoCalGas state that a copy of the Advice Letter and the Supplemental Advice Letter was mailed and distributed in accordance with Section 3.14 of General Order 96-B.

**PROTESTS**

SDG&E AL 2710-E/2366-G and SoCalGas AL 4771 were not protested.

**DISCUSSION**

**SDG&E's and SoCalGas' requests to establish the electric and gas Deductible Tax Repairs Benefits Memorandum Account (DTRBMA) are in compliance with Ruling 2 of the January 15, 2015 ALJ Ruling on the Motion of TURN to establish memorandum accounts to track income tax differences associated with accounting changes in repair deductions.<sup>1</sup> SDG&E's and SoCalGas' requests are approved.**

For SDG&E, the Internal Revenue Service (IRS) issued Revenue Procedure 2011-43 providing electric utilities with the ability to make an automatic accounting method change for repair deductions. For SoCalGas, the IRS issued Revenue Procedure 2012-19 providing guidance to companies wishing to make automatic accounting method changes for repair deductions.

**Pursuant to the IRS Procedure documents, SoCalGas and SDG&E revised the accounting method that they were using for the repairs deduction since the 2012 GRC.**

The utilities previously used what is called a "percentage repair allowance method," but beginning August 2013 used a "facts and circumstance" method.<sup>2</sup>

In their general rate case proceedings (A.14-11-003/ A.14-11-004), SDG&E and SoCalGas are seeking rate recovery of forecasted tax expenses, including income

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<sup>1</sup> Although Ruling Paragraph 2 of the ALJ Ruling orders SDG&E and SoCalGas to establish a Repairs Deduction Memorandum Account, both utilities currently use the acronym RDMA for its existing Residential Disconnect Memorandum Account (RDMA). As a result, the utilities are establishing the DTRBMA instead of the Repairs Deduction Memorandum Account in order to avoid confusion in SDG&E's preliminary statement for memorandum account names.

<sup>2</sup> The "facts and circumstance" method relies on a different method to determine whether the expenditures are capital or a repair, whereas, a "percentage repair allowance" method uses a fixed percentage of qualified capital expenditures to be deducted as repair expense while the remaining amount is capitalized and depreciated over time.

taxes. Due to the change in the method of accounting for repairs deduction, TURN noted that SDG&E and SoCalGas intend to flow through the forecasted 2016 benefit of this change in their respective 2016 GRC beginning in Test Year 2016. TURN estimates substantial tax benefits associated with the repairs deduction that will occur in 2015. TURN forecasts a revenue requirement difference of about \$50 million for SDG&E and \$50 million for SoCalGas due to the change in the accounting methodology between the authorized repair deductions as forecasted in the 2012 GRC proceedings using the then-existing percentage repair allowance accounting method and the actual 2015 repair deductions using the new accounting method, i.e. the “facts and circumstance” method.

Pursuant to Ruling 2<sup>3</sup> of the ALJ Ruling, the DTRBMA will track the difference between (a) the revenue requirement associated with the effect on the utilities’ income tax expense (including gross-up) of using the authorized revenue requirement based on the forecasted percentage repair allowance deduction and (b) the revenue requirement associated with the effect on the utilities’ income tax expense using the new repairs deduction accounting method as recorded for the tax year 2015. The DTRBMA is effective January 15, 2015.

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<sup>3</sup> Ruling 2 of ALJ Ruling dated January 15, 2015 states:

Within 45 days of today, San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), shall each file Tier 3 Advice Letters to establish a Repairs Deduction Memorandum Account, to take effect today until a decision is adopted on the 2016 Test Year applications of SDG&E and SoCalGas, to track the difference between: the revenue requirement for each utility associated with the effect on the utility’s income tax expense (including gross-up) of using the authorized revenue requirement based on the percentage repair allowance deduction; and the revenue requirement for each utility associated with the effect on the utility’s income tax expense (including gross-up) of using the new repairs deduction accounting method as actually claimed, holding all other 2012 General Rate Case parameters equal.

- a. The memorandum account for SDG&E shall use accounts or subaccounts to separate its electric and natural gas operations.

**Granting the authorization to set up the requested memorandum accounts would provide the Commission with the flexibility for addressing how the possible benefits of the change in accounting for the repairs deduction should be applied to 2015 when such an accounting change was not reflected in rates.**

The disposition of 2015 amounts recorded in the DTRBMA shall be addressed in the 2016 GRC or other proceeding as determined by the Commission. Any benefits associated with the change in methodology beginning in 2016 will be addressed in the 2016 GRC.

### **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

### **FINDINGS**

1. SDG&E filed AL 2710-E/2366-G on March 2, 2015 requesting approval to establish the Deductible Tax Repairs Benefits Memorandum Account.
2. SoCalGas filed AL 4771 on March 2, 2015 requesting approval to establish the Deductible Tax Repairs Benefits Memorandum Account.
3. The advice letters were not protested.
4. Ruling 2 of ALJ Ruling in A. 14-11-003/A.14-11-004 dated January 15 ordered SDG&E and SoCalGas to each establish a Repairs Deduction Memorandum Account.
5. The Deductible Tax Repairs Benefits Memorandum Account will track the 2015 difference, for each utility, in revenue requirement associated with the effect on the utility's income tax expense (including gross-up) of using the authorized revenue requirement based on the percentage repair allowance deduction; and the revenue requirement associated with the effect on the utility's income tax expense (including gross-up) of using a new repairs deduction accounting method.

6. The advice letter should be approved as the establishment of the DTRBMA would provide the Commission with the flexibility for addressing how the possible benefits of the change in accounting for the repairs deduction should be applied to 2015 when such an accounting change was not reflected in rates.

**THEREFORE IT IS ORDERED THAT:**

1. San Diego Gas and Electric Company's and Southern California Gas Company's requests to establish the Deductible Tax Repairs Benefits Memorandum Accounts as of January 15, 2015 to its electric and gas tariffs are approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on July 23, 2015; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director